

**Testimony of**  
**America's Community Bankers**  
**on**  
**“Banking on Retirement Security: A Guaranteed Rate of Return”**  
**before the**  
**Subcommittee on Financial Institutions**  
**and Consumer Credit**  
**of the**  
**Financial Services Committee**  
**of the**  
**United States House of Representatives**  
**on**

**June 23, 2005**

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**President & CEO**  
**Harbor Federal Savings Bank**  
**Ft. Pierce, Florida**

**and**

**Member**  
**America's Community Bankers**  
**Washington, DC**

Chairmen Bachus, Ranking Members Sanders and members of the Subcommittees, my name is Michael J. Brown, Sr. I am President and Chief Executive Officer of Harbor Federal Savings Bank, a \$2.9 billion publicly traded savings association located in Ft. Pierce, Florida. Harbor Federal Savings Bank is a community financial institution serving the eastern-part of Florida, where we currently operate 37 full-service banking offices. The primary business lines of the bank are consumer, mortgage and commercial lending.

I am testifying today on behalf of America's Community Bankers, where I have served as a member of the Board of Directors and continue to serve on several committees. Thank you for this opportunity to testify on Banking on Retirement Security: A Guaranteed Rate of Return and its importance for a solvent retirement system in the United States.

Before I begin, I must also commend the hard work that Congressman Tom Feeney and Congressman Pete Sessions have done on this issue. They and their staffs have been working tirelessly, along side with America's Community Bankers, to ensure community banks across our nation are part of any Social Security reform with the so-called "Community Bank Option."

## **Personal Savings Accounts**

The debate over creating a more solvent Social Security retirement system has gained momentum over the past few years, especially with the Administration putting the issue front and center. Because Social Security operates almost entirely as a pay-as-you-go system, it is highly sensitive to the dramatic demographic changes that are increasing the average ages of our population. Increased life expectancies mean more retirees collecting benefits for more years. The resulting decline in the ratio of workers to beneficiaries is pushing the system toward insolvency, and personal savings accounts may be one way to create a more secure Social Security system.

For several years now, ACB has supported allowing workers the choice of investing at least a part of their Social Security taxes in personal accounts. This approach will give individuals greater control over how their retirement security funds are invested and can create a more solvent system. Social Security reform should give workers the option of relying on their community banks and the investment products those banks offer, including insured deposits, in addition to those investment options available on Wall Street.

## **Community Banks Are Experienced Investment Advisers**

Community banks already offer a variety of retirement investments, including FDIC-insured Individual Retirement Accounts (IRAs), certificate of deposits (CDs), mutual funds and annuities. Because community bankers understand the creation of wealth and their customers, they are in an excellent position to help consumers choose appropriate investments for these personal accounts.

ACB believes that any Social Security reform should ensure that consumers have the option of

seeking advice on their personal accounts from people they already trust - their local community banker.

## **FDIC-Insured Accounts (the Community Bank Option)**

For decades, American workers have trusted FDIC-insured financial institutions with their retirement savings. As of the end of 2003, banks and thrifts managed \$246 billion in retirement funds invested in IRAs and Keogh plans.

FDIC-insured retirement accounts should be an option for workers choosing personal accounts. Workers of all ages could benefit from an FDIC-insured deposit option or what is now being called the Community Bank Option. Some workers, while wanting a greater return than the Social Security program currently provides, will be wary of investing all of their retirement funds in equities and other retirement products that carry much higher risk. For these workers, a long-term deposit account would be the most appropriate investment for all or part of the funds made available up by Social Security reform for personal accounts.

Certainly, as workers near retirement age, their tolerance for taking risks in the stock or bond markets will dramatically decrease. ACB believes that FDIC-insured accounts would benefit these older workers not only as a place to invest new funds, but also as a safe product in which to rollover funds from riskier personal account products.

In addition, FDIC insurance has given millions of American families the confidence for over 70 years that the money they deposit in banks will be there when they need it. Allowing FDIC-insured accounts as an option under Social Security reform would encourage workers to choose the personal account option and increase support for reform among consumers.

## **The Facts Support FDIC-Insured Account Option**

Many Americans depend on FDIC and NCUSIF-insured IRAs as part of their retirement savings plans. According to a January 2005 report of the Employee Benefit Research Institute, American families had \$270 billion invested in FDIC and NCUSIF-insured IRAs as of the end of 2003. These funds represent 9 percent of all IRA assets.

In addition, a 2001 Federal Reserve survey of consumer finances showed that 12.3 percent of all American households held insured IRA deposit accounts. The survey also indicates that households in all age brackets rely on these insured accounts for retirement savings, not just households headed by older Americans. American workers should also have insured deposit accounts as an option under any program of personal investment accounts.

## Age Distribution of IRA Accounts at Insured Institutions

Age of head of household	Percent of all households in each age group that have IRA accounts at insured institutions	For each age group, IRA deposits at insured institutions as percent of total IRA funds
< 35	5.3	25.0
35 – 49	11.1	16.4
50 – 64	17.0	18.4
65 – 69	18.5	28.0
>= 70	16.1	27.4
<b>All ages</b>	<b>12.3</b>	<b>21.2</b>

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## Community Bank Option Invests In Local Communities

Allowing investments in FDIC-insured accounts returns money to the local communities where taxpayers live and work. Community banks will invest these funds in their local communities by providing loans to local businesses, mortgage loans to families, education loans to students headed off to college, and in many other ways. If this option is adopted, it could result in reduced rates for these loans.

## Increase Deposit Insurance

Providing a substantial increase in deposit insurance coverage for all retirement accounts would further enhance the community bank role. Currently, the FDIC provides up to \$100,000 of deposit insurance for the retirement accounts (e.g. IRAs and Keoghs) of a depositor in a bank. The shift in America from defined benefit plans to IRA and 401(k)-type savings has increased the burden on individuals to manage their own assets. Retirement assets often exceed the current \$100,000 coverage limit by substantial amounts. A substantial increase in FDIC coverage of retirement accounts would strengthen the viability of the insured deposit account option. And it is important to note, the FDIC is funded through assessments on banks and savings associations.

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<sup>1</sup> Data were provided by Federal Reserve Board staff based on the 2001 Survey of Consumer Finances (the most recent survey available) published in 2003.

<sup>2</sup> IRA accounts refer to all IRA and Keogh accounts, excluding IRA-SEPs and similar accounts maintained as part of an employer-provided retirement benefit.

<sup>3</sup> Insured institutions include banks, thrifts, and credit unions.

<sup>4</sup> IRA deposits refer to the sum of IRA account balances of all household members at all insured institutions used by the household.

## **Conclusion**

ACB strongly believes that FDIC-insured retirement accounts, or the Community Bank Option, should be available for workers choosing personal accounts. Workers of all ages could benefit from an FDIC-insured deposit option. Some workers will be wary of investing their retirement funds in equities and other retirement products that carry risk. For these workers, an FDIC-insured long-term deposit account would be the most appropriate investment for all or part of the funds freed up by Social Security reform.

We thank Chairmen Bachus and the rest of the Subcommittee members in giving us this opportunity to present our views.